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This document has been prepared by International Digital Communications (IDC), a facilities based international carrier in Japan, in response to US FCC Notice of Proposed Rulemaking (NPRM) IB Docket No. 96-261 in the matter of International Settlement Rates.

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Introduction

Although, as a net outpayer of international settlements, IDC is fundamentally supportive of the overall reduction of settlement rates around the world, we feel that the proposed FCC benchmarks are not the appropriate method to initiate this action. The proposed benchmarks will not effectively serve US consumers or the telecommunications industry. The nature of the telecommunications industries in each country are very different and efforts to establish costs using broad generalizations based on US domestic interconnection methodology are not adequate. Japan serves as a prominent example of the basic differences in industry structure. As put forth in the FCC document, Japan fits the description of a competitive market and a high income country, yet interconnection costs and costs of doing business remain high. There continues to be a large disparity between FCC benchmarks and current settlement rates. The FCC document states that in such a case interconnection costs should be low. Any attempt to alter the Japan-US settlement rates artificially using the benchmark methods outlined in the FCC proposal will be ineffective and will not reflect a true market situation.

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Position Points

Jurisdiction

The FCC is acting beyond its authority by proposing the imposition of benchmarks on US carriers for international interconnection. Article 6.2.1 of the ITR states that accounting rates are to be determined by mutual agreement. Based on this treaty, the proposed benchmarks are in clear violation of international law. The FCC only has jurisdiction over the US side of communications services. The proposed benchmarks, by extension, represent the imposition of US policies on other national governments. This is clearly outside the authority of the US FCC.

Traffic Imbalance

The principle issue in this discussion is not settlement rates themselves but the imbalance in international traffic flows.

Outbound call volume from Japan to the US is currently increasing at about 5% per year. As recently as 1990, Japan had an in/out traffic ratio of nearly one to one. This ratio has increased dramatically and is currently more than two to one with the US in their favor. A number of factors have contributed to this change. Many of the reasons for the imbalance are a result of the activities of US carriers and resellers

with the full endorsement of the FCC, which governs those activities. During the late 80's and early 90's AT&T and other US carriers increased promotion of international calling card services. This was accompanied by the promotion of Home Country Direct services used with cards which reversed the billing, and hence the settlement revenue, of what would be, and is, Japan originated calling, to look like US originated calling. This turned out to have a particularly dramatic effect on Japan-US traffic, in part, because of the large US military presence in Japan. At around the same time many US resellers negotiated supply arrangements with US carriers that were actually below the settlement rate. The rationale was that the effect of proportionate return would provide revenue on the inpayment that was greater than the loss on the outpayment. The low rates soon enticed the resellers to begin callback operations. As callback and reverse billed traffic grows the traffic imbalance is increased as do outpayments creating a vicious cycle. All this was done with the understanding and endorsement of US regulators.

As all of this was happening, the settlement rate between Japan and the US since 1989 has declined by 53%. Collection rates in Japan have also declined more than 200% over roughly the same period. The Japanese telecommunications industry is experiencing a consistent positive transformation through deregulation and an increase in competition through market forces. Settlement rate benchmarks based on a US paradigm will only hinder this process by the imposition of non-market policies from the US.

Conflicting Policies

In November 1996 the FCC issued its "Flexibility Order" (FCC 96-459) which seems to be directly in conflict with the proposed benchmarks as they relate to Japan. Although IDC is not indicating that we necessarily endorse this order, the Flexibility Order indicates that competitive markets are free to negotiate alternatives for terminating international traffic, while the International Settlement Rate benchmarks impose a revised version of the existing system. Again, Japan seems to be an exception to this policy because it does not fit neatly into the broad generalizations proposed in the FCC Notice.

Benchmark Calculation

The calculation of benchmark costs in the FCC approach is based on the development of 'alternative' data. This data consists of three elements: 1) international transmission facilities; 2) international switching facilities; and 3) national extension. The NPRM assumes that international connectivity is an extension of domestic networks and proposes that these costs are 'stripped out' individually as the international costs. In the case of Japan, international carriers only provide international services and these costs are not subsidized by any further business operations. The NPRM states that benchmark calculations include a profit component and overhead costs which they consider inappropriate for international service. IDC believes an additional element of overhead expenses must be included

when doing a cost calculation. This element is a shared business expense or overhead that includes the basic costs of doing business in each country.

Diverse National Market Structures

The FCC states that it pledges to structure settlement policies to reflect diverse national market structures. Most global businesses utilize an international cost of living index when measuring cost elements for expatriates. Most of the indexes list a difference of around two to one for Japan and the US respectively. The cost of doing business can vary widely from country to country and the failure to include such a cost element in the establishment of international benchmarks would considerably handicap high-cost countries such as Japan. By stripping out the three basic elements of cost as proposed by the FCC, Japanese international carriers would, in fact, be subsidizing US and other countries terminating calls in Japan. These costs will probably result in an increase in Japanese consumer collection rates. The general grouping of costs into high, medium, and low categories also is an over-simplification of a very complex issue of operating costs as seen in Japan.

Consumer Interests

There has been a dramatic reduction in consumer prices of telecommunications since the Japanese market was liberalized and competition was introduced. The current (1997) price of an IDC 3 minute call to the US during peak period is 440 yen or \$3.82*. The same call from the US using AT&T to Japan is \$5.59. This comparison, though undiscounted tariff rates, should also be viewed in light of the recognized cost of doing business difference between Japan and the US. It is our understanding that US carrier consumer collection rates have actually increased over the last several years to Japan and other Asian countries. This fact, combined with steadily declining Japanese collection rates and settlement rates, shows that US collection rates are not tied to US outpayments in the case of several Asian countries. This trend shows that a decrease in the settlement rates has not been passed on to consumers in the US but gone directly to the profits of US carriers. It is our feeling that any action to impose a US determined cost structure to US-Japan settlement rates will not benefit US consumers, but simply inflate the bottom lines of US carriers at the expense of new competitive companies such as IDC.

* 2/97 exchange rate avc. 115 Yen

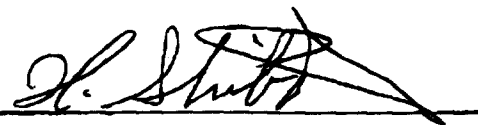
Conclusion

In summary, the establishment and subsequent enforcement of benchmarks for International Settlement Rates by the US would be detrimental to the healthy growth of telecommunications competition worldwide. Such actions by the US are seen as a scheme that will primarily benefit US carriers and have little, if any, benefit

for consumers of telecommunications services. Settlement rates in major traffic countries have decreased substantially over the last five years, yet US carriers international rates have not decreased but increased. During the same time frame those same US carriers have reported strong profits. Further, any attempt to extend US authority to sovereign nations by enforcing the provisions of this proposal represents a clear abuse of the market power of the US. IDC categorically opposes the international extension of US benchmarks for Settlement Rates. These rates should continue to be negotiated both on a bilateral basis and in the established multilateral forum of the ITU as the recognized international body responsible for such rulemaking. The US has followed a natural evolution as a competitive market over the past thirteen years. It is an unrealistic expectation that the rest of the world should have the same telecommunications structure.

Respectfully submitted,

By:

A handwritten signature in black ink, appearing to read 'H. Shibata', written over a horizontal line.

Hiroshi Shibata

Director - International Services

International Digital Communications

5-20-8, Asakusabashi, Taito-ku, Tokyo 111-61, Japan

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